

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

WORKERS COMPENSATION FUND

OF

MURRAY, UTAH

AS OF

DECEMBER 31, 2004



TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	1
Period Covered by Examination.....	1
Examination Procedure Employed.....	1
Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination	2
HISTORY	2
General	2
Capitalization	3
Dividends to Policyholders	3
Management	3
Conflict of Interest Procedure	5
Corporate Records.....	6
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance.....	6
Surplus Debentures.....	6
AFFILIATED COMPANIES.....	6
FIDELITY BOND AND OTHER INSURANCE.....	7
PENSION AND INSURANCE PLANS	8
STATUTORY DEPOSITS.....	8
INSURANCE PRODUCTS AND RELATED PRACTICES.....	8
Policy Forms and Underwriting	8
Territory and Plan of Operation	9
Advertising and Sales Material.....	9
Treatment of Policyholders	10
REINSURANCE	10
Assumed:.....	10
Ceded:	11
ACCOUNTS AND RECORDS.....	11
FINANCIAL STATEMENTS.....	12
Balance Sheet.....	13
Statement of Income	14
Surplus	15
NOTES TO FINANCIAL STATEMENTS	15
SURPLUS	15
SUMMARY	15
CONCLUSION	16

August 3, 2005

Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated ("U.C.A.") Title 31A, an examination of the financial condition and business affairs of

**WORKERS COMPENSATION FUND
of
Murray, Utah**

a nonprofit, quasi-public, property and casualty insurance company, hereinafter referred to as ("the Company"), was conducted as of December 31, 2004.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's ("the Department") last financial examination of the Company was conducted as of December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination utilized a Top-Down, Risk-Focused Examination approach following the guidance in the current draft version on Risk-Focused Examinations of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook.

As part of the Risk-Focused Examination process, examiners spent the first portion of the examination reviewing information about the Company's organizational structure, business approach, and control environment to develop the examination approach that would most closely fit the Company. It was determined that a functional activity approach would be most appropriate. Based upon the review, the following functional areas were developed for the examination approach: Management, Investments, Policyholder Services, Claims and Reinsurance.

Examiners then determined the applicable risks in each of the functional areas and used the information gathered from the Company, interviews conducted with the senior management team, work performed by the internal auditor and external auditor work papers to evaluate how these risks have been addressed. In some cases, examiners determined the work conducted by

the internal auditor, external auditor and/or examiners was sufficient to address and mitigate the identified risk area. In these cases, no additional testing was conducted, while in other areas the identified risk was either not addressed or not sufficiently addressed and additional testing was warranted.

The examiners relied on an analysis of indicated loss and loss adjustment reserves report prepared by the Department's contracted actuarial consulting firm, Taylor-Walker & Associates, Inc. The examiners tested the completeness of the records provided to the firm, and the accuracy of the underlying data used to establish reserve amounts.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination

The previous examination, as of December 31, 2000, decreased the Company's reported surplus by approximately \$2.26 million. The decrease resulted from not admitting a \$2 million investment in a limited liability company and \$.26 million in receivables from subsidiaries and affiliates. The Company did not admit investments in limited liability companies in its 2004 annual statement. Receivables from subsidiaries and affiliates were admissible assets in 2004 in accordance with the NAIC Accounting Practices and Procedures Manual. Other items of significance or special interest noted in the prior examination report have been addressed by the Company or have received further comment in this report.

HISTORY

General

In 1917, the Utah State legislature adopted the Utah Workmen's Compensation Act, which required employers to provide workers' compensation insurance benefits. The employers were allowed to provide the benefits through self-insurance, private insurance, or insurance through the Utah State Insurance Fund, the Company's predecessor. The act established the Company as a division of Utah Administrative Services with the responsibilities of providing workers' compensation coverage to Utah domiciled employers at the least possible cost and to provide prompt, professional service for its policyholders and their injured employees.

Legislation in 1988 and 1990 authorized the Company to operate as a non-profit business enterprise, and pursuant to U.C.A. § 31A-1-105; the Company was brought under regulation of the Department in 1993. U.C.A. § 31A-33-102 created the Company as a nonprofit, quasi-public corporation. On April 6, 1994, the Department issued a certificate of authority authorizing the Company to insure workers' compensation risks in the state of Utah.

As the result of a lawsuit filed by the Company in 2004, the Third Judicial District Court determined the state of Utah does not have an ownership interest in the Company other than as a policyholder. The state of Utah appealed the court's decision to the Utah Supreme Court. On

August 23, 2005, the Utah Supreme Court affirmed the district court's decision that the state of Utah has no ownership interest in the Company or its assets other than as a policyholder.

The Company's articles of incorporation and by-laws were adopted on March 29, 1994, and April 7, 1994, respectively. Articles of amendment to the articles of incorporation were filed with and approved by the Department in July 1998, May 1999, and June 2000. No amendments to the articles of incorporation were made during this examination period. An amendment to the Company's bylaws was filed with the Department in June 2002. The amendment made two significant changes and numerous clarifications. The first significant change deleted the requirement that the Company's principal office be located in Salt Lake City. The second significant change requires that indemnification against liability of any individual made a party to a proceeding because the individual is or was a director of the Company may not be paid until 30 or more days after sending a detailed notice of the proposed indemnification to the Utah Insurance Commissioner.

Capitalization

In 1917 the state of Utah Treasury appropriated \$40,000 for the Company's original capitalization. The appropriation was repaid during the 1920's. The Company is required to maintain a minimum permanent surplus of \$300,000, and it is required by U.C.A. 31A-17-Part 6 to meet risk-based capital levels.

Dividends to Policyholders

Dividends to policyholders, as reflected in the Company's statement of income are as follows:

Period	Amount
2001	\$ 8,000,000
2002	2,441,504
2003	3,000,000
2004	19,888,559

Management

Ultimate control of the Company resides with its board of directors ("the board"). U.C.A. § 31A-33-106 establishes the number of directors at seven, consisting of the executive director of the Department of Administrative Services or designee; the chief executive officer of the Company; and five directors appointed by the Governor, with the advice and consent of the Senate. Three of the appointed directors are required to be owners, officers or employees of policyholders, other than the state of Utah, that have been insured by the Company for at least one year before their appointment. Two of the directors are required to be appointed from the public in general. Board member appointment is in accordance with the public director selection provisions for mutual insurance companies under U.C.A. § 31A-5-409.

Each director's term of office is four years beginning July 1st of the year of appointment. The Governor, at the time of appointment, is required to adjust the length of terms to ensure that the terms of the board members are staggered so that approximately half of the board is appointed every two years.

Remuneration paid to members of the board during the examination period was not in compliance with U.C.A. 31A-33-106(18)(a), but may reflect remuneration paid by similarly situated insurance companies. From an economic standpoint, this does not present a solvency concern.

Directors serving as of December 31, 2004, follow:

<u>Name – Location</u>	<u>Term Expiration</u>	<u>Capacity</u>	<u>Principal Affiliation</u>
Robert Day Myrick, Chair Salt Lake City, Utah	2006	Public	Retired Formerly President and Chief Executive Officer Morgan Stanley Dean Witter Bank
Judd Arthur Turner, Vice Chair Salt Lake City, Utah	2006	Policyholder	Vice President Fred A. Moreton & Co.
Dallas Hansen Bradford Bountiful, Utah	2006	Public	Retired Formerly Managing Partner of Salt Lake City Office Arthur Andersen LLP
Ruth Lybbert Salt Lake City, Utah	2008	Policyholder	Attorney Dewsnup, King & Olsen
Alan Franklin Edwards Salt Lake City, Utah	Statutory	Office	Director of Risk Management Utah Department of Administrative Services
Robert Blaine Murray Bountiful, Utah	2008	Policyholder	Owner Alpine Confections
Lane Alma Summerhays Salt Lake City, Utah	Statutory	Office	President, Chief Executive Officer Workers Compensation Fund

The following directors constituted the membership of the Company's committees at the examination date:

Investment Committee

Robert Day Myrick, Chair
Dallas Hansen Bradford
Robert Blaine Murray
Lane Alma Summerhays

Marketing Committee

Judd Arthur Turner, Chair
Alan Franklin Edwards
Ruth Lybbert
Lane Alma Summerhays

Audit Committee

Dallas Hansen Bradford, Chair
Alan Franklin Edwards
Ruth Lybbert
Robert Blaine Murray

Compensation, Benefits and
Human Resources Committee

Judd Arthur Turner, Chair
Dallas Hansen Bradford
Robert Day Myrick
Lane Alma Summerhays

Officers elected by the board of directors and serving at the examination date follow:

Officer

Office

Lane Alma Summerhays	President and Chief Executive Officer
Dennis Vaughn Lloyd	Senior Vice President, General Counsel, and Corporate Secretary
Ray David Pickup	Senior Vice President, Chief Financial Officer, and Corporate Treasurer
Robert Harold Short	Senior Vice President and Chief Operations Officer

In 2004, the Company entered into employment agreements with each of the above officers. Mr. Summerhays's contract expires on June 30, 2010. The other contracts expire on May 31, 2008.

Conflict of Interest Procedure

In compliance with Article III (a)(15) of the Company's by-laws, procedures for disclosure of any material conflict of interest have been established. The procedures provide that each employee will receive a copy of the policy statement, review it annually, and disclose all situations, which may give rise to a conflict of interest. Additionally, directors, officers and key employees are requested to complete annual conflict of interest disclosure questionnaires.

A review of officers and directors' questionnaires disclosed that several questionnaires were incomplete. This was also noted in the prior examination report. The questionnaire specifically states that "If a numbered item is not applicable, please do indicate in writing." The questionnaire requests the individual identify the nature of any relationships the individual or members of his or her immediate family may have with specific entities. Relationship means financial, employment, consulting, or contractual agreements, arrangements, affiliations, or interests of any kind. Five directors and four officers listed various relationships. Company management indicated that these

relationships were reviewed by the Company's general counsel for any relationship that would be a conflict of interest requiring action by management or the board. None were identified.

Corporate Records

In general, board of directors and committee meeting minutes indicated the board and its committees adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior examination report to each member of the board.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

Effective July 19, 2004, the Company transferred its shares of stock in Advantage Workers Compensation Insurance Company ("AWCIC") to a voting trust, giving the Trustee legal title to the shares. The Company retained its economic interest in AWCIC. The Trustee votes on all shareholder matters in accordance with voting guidance received from AWCIC policyholders who are also policyholders of the Company. As a consequence of this transfer of control, AWCIC is not considered to be a subsidiary or affiliate of the Company.

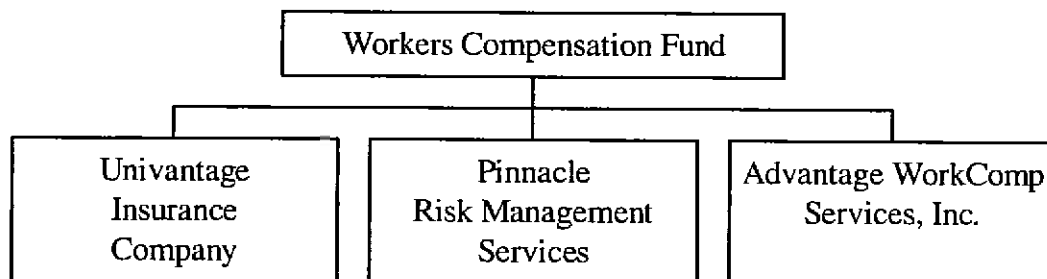
Surplus Debentures

No debentures were issued or retired during the examination period and none were outstanding as of December 31, 2004.

AFFILIATED COMPANIES

The Company is the ultimate controlling member of an insurance holding company system. An organizational chart presenting the identities of and interrelationships between the Company and its affiliates on December 31, 2004, follows:

Insurance Holding Company System



Univantage Insurance Company is a Utah domiciled insurer acquired by the Company on January 8, 1996, for the purpose of expanding its insurance activities to health coverages.

However, subsequent to the acquisition date, U.C.A. § 31A-33-103.5 was amended to limit the Company and its subsidiaries to offering only workers' compensation insurance coverage. The subsidiary's insurance operations were dormant and it had no insurance in force. Financial activity of the subsidiary consisted mainly of earnings on its invested assets.

Pinnacle Risk Management Services, Inc. ("Pinnacle") is a third-party administrator of workers' compensation claims.

Advantage WorkComp Services, Inc. is a workers' compensation products and services company. On January 1, 2005, the Company transferred its shares of Advantage WorkComp Services, Inc. to Pinnacle.

Effective June 15, 1998, the Company, Pinnacle, Univantage Insurance Company, and Advantage WorkComp Services, Inc. entered into an agreement for cooperative and joint use of personnel, property, equipment, and services. The Company agreed to provide for its subsidiaries; personnel, property, equipment, and services to enable the subsidiaries to conduct business and other corporate functions. Pinnacle agreed to provide personnel, property, equipment, and services to the Company to enable the Company to conduct its insurance business and other corporate functions. The agreement requires the amount charged be fair, reasonable, equitable, and in accordance with the prevailing market rates.

Effective January 1, 2000, the Company entered into a Claims Service Agreement with Pinnacle. Pinnacle agreed to represent and act for the Company in matters pertaining to the liability of the Company for employee claims under the Workers' Compensation Act, or similar law, in the state of Utah.

Effective April 1, 2000, the Company entered into a Service Agreement with Advantage WorkComp Services, Inc. Advantage WorkComp Services, Inc. agreed to provide consultative services, including workers' compensation risk analysis, loss prevention, and claims management to the Company's subscribing employers.

Effective July 1, 2002, the Company entered into a Claims Service Agreement with Pinnacle. Pinnacle agreed to adjust claims for Company policyholders' out of state coverage written by Alea North America Insurance Company.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between \$1,250,000 and \$1,500,000. The Company had fidelity coverage with a single loss limit of \$2,000,000 and a single loss deductible of \$50,000.

The Company was a named insured under various policies providing property, building flood and earthquake, and automobile coverage. In addition, the Company carried general and excess liability coverage and specific coverage for directors and officers' liability.

PENSION AND INSURANCE PLANS

The Company is a voluntary participant in the State and School Contributory and Noncontributory Retirement Systems. The systems are administered by the state of Utah and are multi-employer cost sharing defined benefit plans. Contributions to the retirement systems are required by statute. Covered employees in the contributory system are required to contribute 6 percent of their salary and the Company is required to contribute 8.89 percent of their salary. No employee contributions are allowed in the noncontributory system. The Company is required to contribute 13.68 percent of salary to the noncontributory system.

Employees participating in the noncontributory retirement plan are also eligible to participate in a 401(K) salary deferral program. The Company contributes 1.5 percent of the employee's gross salary to the salary deferral program, and the employee may elect to contribute additional amounts.

The Company entered into a supplemental retirement agreement with its president and chief executive officer. Provision was made in the financial statements for the Company's obligations under the agreement.

The Company offered its employees a variety of medical and dental options. The Company shared in the cost of the coverage. The Company also provided workers' compensation insurance and basic group term life insurance at no cost to employees. Optional benefits included additional coverage of life, accidental death and dismemberment for the employee and/or their dependents.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to its minimum permanent surplus of \$300,000. Zions First National Bank held U.S. Treasury Notes with a statement value of \$362,979 and a market value of \$428,238 under a tri-party agreement with the Department.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

Prior to 1996, the Company used its own policy contract and endorsement forms. Policies issued after January 31, 1996, adopted the National Council on Compensation Insurance ("NCCI") forms. The Company filed and used its own policy applications, schedules and endorsements to supplement the NCCI forms, when it was considered appropriate and necessary. As of December 31, 2004, the Company's risk retention was \$20,000,000.

All policies currently issued are for a specified policy period with effective and expiration dates shown on the policy information page. Policy periods are generally one year unless a short-

term policy is required for a specific reason. Estimated premiums for the policy period are based on estimated payroll with the final premium determined by audit after expiration of the policy.

U.C.A. § 31A-22-1001 obligates the Company to write all workers' compensation insurance for which an application is received. Consequently, underwriting was essentially limited to proper classification of employees, selection of a premium payment plan, and calculation of premiums. NCCI occupational codes were used to assign employee classifications.

The Company had three premium rate tiers, preferred, standard, and non-standard. Specific eligibility provisions applied to preferred and non-standard rates. All risks not qualifying for preferred or non-standard rates were written at standard rates.

Territory and Plan of Operation

The Company was created by U.C.A. 31A-33, to insure Utah employers against liability for compensation based on job-related accidental injuries and occupational diseases and to assure payment of this compensation to Utah employees who are entitled to it. In accordance with U.C.A. § 31A-33-103.5(2), the Company may only offer:

- (1) workers' compensation insurance in Utah;
- (2) workers' compensation insurance in a state other than Utah to the extent necessary to accomplish its purpose under U.C.A. § 31A-33-102(1)(b); and to provide workers' compensation or occupational disease insurance coverage to Utah employers and their employees engaged in interstate commerce; and
- (3) workers' compensation products and services in Utah and other states.

The Company is only authorized to transact workers' compensation insurance within the state of Utah. U.C.A. § 31A-22-1001 requires the Company to write all workers' compensation insurance for which application is made to the Company. Under U.C.A. § 34A-2-203, each department, commission, board or other agency of the state of Utah is required to pay the insurance premium on its employees direct to the Company.

The Company maintained approximately a 62 percent market share of all workers' compensation insurance written in the state of Utah. Its products were marketed by approximately 12 salaried employee/agents and about 30 independent insurance agencies, comprised of around 200 licensed agents. The marketing vice president supervised the employee/agents and was the point of contact between the Company and its independent agents. The Company's standard agency agreement established a commission rate, but allowed the negotiation of deviations from the specified rate.

Advertising and Sales Material

In general, the Company's advertising was not directly related to its insurance policies. Most of the Company's advertising expense was for television commercials and other media advertising. The purpose of the advertising was to promote workplace safety, decrease insurance fraud and to increase name recognition. The following schedule compares advertising expense to direct written premiums:

Year	Advertising Direct Premiums		% of
	Expense	Written	
2001	\$1,081,283	\$128,013,188	0.84%
2002	744,183	161,752,363	0.46%
2003	444,331	199,935,029	0.22%
2004	613,693	224,276,193	0.27%

Treatment of Policyholders

U.C.A. § 34A-2-801 provides procedures for adjudication and administrative action hearings within the Division of Adjudication, a division of the Labor Commission. However, in some instances policyholder complaints were filed with the Department. During the four-year examination period, 22 general type complaints were filed with the Department. Three were filed in 2001, three in 2002, nine in 2003, and seven in 2004. All complaints filed, except one in 2002, are closed. The small volume of complaints, relative to total policies issued and claims processed, indicates the Company maintained control over policyholder complaints throughout the examination period.

REINSURANCE

Assumed:

Effective July 1, 2004, the Company terminated its reinsurance agreement with its former affiliate, Advantage Workers Compensation Insurance Company ("AWCIC") and entered into a new reinsurance agreement. The Company agreed to reinsure workers compensation and employers liability policies written for certain out of state exposures of the Company's Utah based policyholders.

The agreement required the Company to provide an initial paid loss deposit of \$170,000, which represents AWCIC's estimate of the average losses AWCIC will pay during a seventy-five day period. The Company is required to maintain this deposit. AWCIC may from time to time recalculate the required amount and require the Company to fund the deposit based on the recalculation.

The Company is an accredited reinsurer in the state of Indiana and provides a reinsurance trust account in accordance with state statutes and regulations to secure Company obligations under the agreement. The trust account must be maintained at a level of at least 102% of AWCIC's reserves for outstanding losses, incurred but not reported ("IBNR"), loss adjustment expenses and unearned premiums. The trust account balance as of December 31, 2004 was \$37,696,769.

Effective August 1, 2004, the Company entered into a new reinsurance agreement with Alea North America Insurance Company ("ANAIC"). The Company agreed to reinsure all workers compensation and employers liability business identified as the Workers Compensation Fund – Utah Program. The Company agreed to provide an amount equal to its obligations under

the agreement through a trust account or other collateral that is acceptable to the insurance regulatory authorities having jurisdiction over ANAIC's reserves and meeting all requirements of New York Regulation 114. The trust account balance as of December 31, 2004 was \$7,469,774.

Ceded:

The Company's reinsurance program effective for calendar year 2004 provided Per Occurrence reinsurance protection in two layers excess of \$20,000,000 up to \$100,000,000. Both layers contained provisions for one automatic reinstatement at 100% additional premium. In addition, both layers included a Maximum Any One Life Warranty of \$5,000,000; therefore, coverage was only provided for multiple claimant losses.

ACCOUNTS AND RECORDS

The Company's computer systems operate on mainframe, mid range and server based hardware. The policy administration, claims administration, billing, and accounts payable are proprietary applications that were developed internally. The general ledger is a commercial application. All systems are fully integrated. All major accounting records are maintained electronically. General ledgers, subsidiary ledgers and journals are not maintained in hard copy form. Trial balances and summary reports are extracted from a database.

An examination trial balance, as of December 31, 2004, was prepared from the Company's electronic trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary. Accounts and records deficiencies or concerns identified in the examination included the following:

- The Company recorded and reported bond and stock investment transactions based on settlement date rather than trade date. NAIC Accounting Practices and Procedures Manual ("APPM") SSAPs No. 26 and No. 30, which became effective January 1, 2001, require that bond and stock acquisitions and disposals be recorded on the trade date.
- The Company's method of accounting for written premiums and the unearned premium liability was in conflict with the guidance contained in APPM SSAP No. 53. The Company used what it referred to as the "Western Method" of accounting for premiums in that premiums earned and the unearned premiums liability were not recorded until the premium was actually received rather than when the premium was billed. While the deviation from the APPM was noted, further review of the Company's accounting treatment indicated that there was not a material variance between the Company's method of accounting and the APPM treatment. The increase in the unearned premium liability due to the change in treatment would be offset by a corresponding increase in the premium receivable balance - the net effect would be zero. The Company performed a reconciliation of their unearned premium balance looking specifically at differences in the billing vs. collection issues and has estimated the difference between the two methods would amount to an increase in premiums receivable and a corresponding increase in the unearned premium liability of just over \$1 million. The net effect on surplus would be zero.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2004, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2004
Underwriting and Investment Exhibit – Statement of Income
For the Year Ended December 31, 2004
Surplus – January 1, 2001 through December 31, 2004

The accompanying notes to financial statements are an integral part of these statements.

Workers Compensation Fund
Balance Sheet
As of December 31, 2004

ADMITTED ASSETS

	<u>Amount</u>
Bonds	\$ 705,881,459
Preferred stocks	5,000,000
Common stocks	199,498,709
Mortgage loans on real estate – first liens	24,925,775
Real estate – Properties occupied by the Company	6,448,029
Real estate – Other properties	21,676,346
Cash and short-term investments	37,968,116
Interest, dividends and real estate income due and accrued	11,028,218
Uncollected premiums and agents' balances in course of collection	10,912,487
Premiums, agents' balances and installments booked but deferred and not yet due	6,945,816
Amounts recoverable from reinsurers	53,056
Guaranty funds receivable or on deposit	2,745,171
Electronic data processing equipment	618,778
Receivable from parent, subsidiaries and affiliates	3,967,482
Total assets	<u>1,037,669,442</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	586,140,311
Loss adjustment expenses	62,738,430
Commissions payable, contingent commissions and other similar charges	709,197
Other expenses, excluding taxes, licenses and fees	11,268,491
Taxes, licenses and fees due or accrued, excluding federal income taxes	6,420,689
Unearned premiums	38,748,554
Advance premiums	3,122,330
Ceded reinsurance premiums payable	243,109
Amounts withheld or retained by company for account of others	1,627,226
Total liabilities	<u>711,018,337</u>
Unassigned funds (surplus)	<u>326,651,105</u>
Surplus as regards policyholders	<u>326,651,105</u>
Total liabilities, surplus and other funds	<u>\$1,037,669,442</u>

Workers Compensation Fund
Underwriting and Investment Exhibit
Statement of Income
For the Year Ended December 31, 2004

	<u>Amount</u>
Underwriting income:	
Premiums earned	\$ 245,557,584
Deductions:	
Losses incurred	163,934,593
Loss expenses incurred	19,870,424
Other underwriting expenses incurred	57,954,358
Total underwriting deductions	<u>241,759,375</u>
Net underwriting gain or (loss)	3,798,209
Investment income:	
Net investment income earned	44,311,655
Net realized capital gains or (losses)	11,271,749
Net investment gain or (loss)	<u>55,583,404</u>
Other income:	
Net gain (loss) from agents' or premium balances charged off	(1,045,776)
Aggregate write-ins for miscellaneous income -- other income	62,130
Total other income	<u>(983,646)</u>
Net income before dividends to policyholders	58,397,967
Dividends to policyholders	19,888,559
Net income, after dividends to policyholders but before federal and foreign income taxes	38,509,408
Federal and foreign income taxes incurred	33,941
Net income	<u>\$ 38,475,467</u>

Workers Compensation Fund
Surplus
January 1, 2001 through December 31, 2004

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Surplus prior year	\$256,726,138	\$245,306,780	\$219,816,762	\$293,446,807
Net income (loss)	1,833,987	(26,548,747)	48,958,674	38,475,467
Net unrealized capital gains (losses)	(10,969,913)	(2,498,136)	24,362,634	2,617,451
Change in nonadmitted assets	<u>(2,283,432)</u>	<u>3,556,865</u>	<u>308,737</u>	<u>(7,888,620)</u>
Change in surplus as regards policyholders for the year	<u>(11,419,358)</u>	<u>(25,490,018)</u>	<u>73,630,045</u>	<u>33,204,298</u>
Surplus, December 31, current year	<u>\$245,306,780</u>	<u>\$219,816,762</u>	<u>\$293,446,807</u>	<u>\$326,651,105</u>

NOTES TO FINANCIAL STATEMENTS

No adverse findings, material changes in the financial statements, or other significant regulatory information was disclosed by the examination.

SURPLUS

No examination adjustments were made to the Company's unassigned surplus of \$326,651,105. U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of \$300,000. In accordance with U.C.A. 31A-17, Part VI, the Company's total adjusted capital was \$326,651,105 and its authorized control level Risk-Based Capital ("RBC") was \$64,747,835.

SUMMARY

Items of significance contained in this report are summarized below:

1. As the result of a lawsuit filed by the Company in 2004, the Third Judicial District Court determined that the state of Utah does not have an ownership interest in the Company other than as a policyholder. On August 23, 2005, the Utah Supreme Court affirmed the district court's decision. (HISTORY – General)
2. Remuneration paid to members of the board during the examination period was not in compliance with U.C.A. § 31A-33-106(18)(a), but may reflect remuneration paid by similarly situated insurance companies. From an economic standpoint, this does not present a solvency concern. (HISTORY – Management)
3. As also noted in the prior examination report, several filed conflict of interest questionnaires were incomplete. The questionnaire requests the individual identify the nature of any relationships the individual or members of his or her immediate family may have with specific entities. Five directors and four officers listed various relationships. The Company's

counsel reviewed the relationships. None were considered to be conflicts of interest requiring action by management or the board. (HISTORY – Conflict of Interest Procedure)

4. Effective July 19, 2004, the Company transferred its shares of stock in Advantage Workers Compensation Insurance Company to a voting trust, giving the Trustee legal title to the shares. The Company retained its economic interest. (HISTORY – Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance)
5. Two accounts and records deficiencies were identified. (ACCOUNTS AND RECORDS)
6. U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of \$300,000. In accordance with U.C.A. 31A-17, Part VI, the Company's total adjusted capital was \$326,651,105 and its authorized control level Risk-Based Capital ("RBC") was \$64,747,835. (SURPLUS)

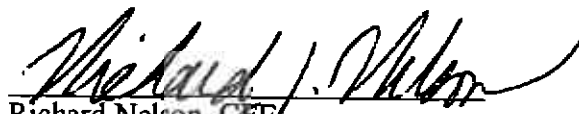
CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. In addition to the undersigned, American Express Tax and Business Services Inc. employees James Menck CFE; Jan Moenck CFE, Manager; Margaret Spencer CFE, Managing Director; Brendan Brown; Annette Knief, Senior Manager; and Department employee Donald R. Catmull, AFE, Financial Examiner participated in the examination. Colette Reddoor, CFE, Assistant Chief Examiner supervised the examination.

Respectfully submitted,


C. Kay Anderson, CFE

Co-Examiner-in-Charge, representing the
Utah Insurance Department


Richard Nelson, CFE

Co-Examiner-in-Charge, representing the
Utah Insurance Department